

FIRST QUARTER 2016 INLAND EMPIRE RETAIL

Voit
REAL ESTATE SERVICES

MARKET CHANGE

Compared to Previous Quarter:

Vacancy

DOWN

Net Absorption

POSITIVE

Lease Rates

DOWN

Transactions

DOWN

Deliveries

DOWN

HIGHLIGHTS

- **Positive Direction** - The Inland Empire retail market continues to move in a positive direction at the end of the first quarter of 2016. Vacancy and availability decreased compared to this time last year. The market saw 83,140 square feet of positive net absorption for the quarter, and the average asking triple-net lease rates exceeded the going rate of the same quarter last year by a cent. These are all good indications that the market is maintaining continuous growth.
- **Construction** - Over 252,215 square feet of new retail space was under construction in the Inland Empire at the end of the first quarter of 2016 and more than 11.1 million square feet of new product is proposed for construction, with almost all of it (7.7 million SF) planned in the Inland Empire East. Most of that proposed construction is split between shopping centers and general retail shops—6.5 million SF and 1.9 million SF respectively. Thus far 16 buildings totaling a little more than 116,000 square feet of new retail product were delivered to the market in the first quarter.
- **Vacancy** - Direct/sublease space (unoccupied) finished the first quarter of 2016 at 7.68%, down from the 7.71% we say this time last year. General retail had the lowest vacancy rate in the quarter, coming in at only 4.46%, while specialty centers had the highest at 12.68%.
- **Availability** - Direct/sublease space being marketed was 10.39% for the first quarter of 2016, a year over year increase of 12 basis points.
- **Lease Rates** - The average asking triple-net lease rate per month per square foot in the Inland Empire was \$1.37 at the end of the first quarter of 2016, which is 1 cent above the rate from the same quarter of the previous year or a 0.7% annual increase.
- **Absorption** - The Inland Empire retail market posted 83,140 square feet of positive net absorption in the first quarter of 2016. For comparison, this time last year positive net absorption equaled 32,659 square feet. Including the net absorption from this quarter, the Inland Empire has totaled over 3.4 million square feet of positive net absorption since the third quarter of 2013.
- **Transaction Activity** - Leasing activity checked in at 730,899 thousand square feet for 2016's first quarter, down the 1.0 million square feet witnessed in the first quarter of 2015. At 1.2 million square feet, sales activity declined both from the last quarter of 2015 (2.1 million SF) and from this time last year (2.8 million square feet). Combined, sales and leasing activity equaled 1.9 million square feet for the quarter—a year over year decline of 48.53% in activity from the first quarter of 2015. Details of the largest transactions can be found on the back page of this report.
- **Employment** - The unemployment rate in the Riverside-San Bernardino-Ontario MSA was 5.8% in February 2016, unchanged from a revised 5.8% in January 2016 and below the year-ago estimate of 6.9%. This compares with an unadjusted unemployment rate of 5.7% for California and 5.2% for the nation during the same period. The unemployment rate was 5.9% for Riverside County and 5.6% in San Bernardino County. According to the State of California Employment Development Department, the Riverside-San Bernardino-Ontario MSA showed a net gain of 46,800 payroll jobs from February 2015 to February 2016, with most of the gains (14,100 jobs) coming from the trade, transportation and utilities sector.
- **Overall** - Retail demand is improving. With new deliveries in the pipeline, expect upward pressure on vacancy rates. The market should continue to strengthen, however, as average asking least rates stabilize, ranging between \$1.36-\$1.38 on a triple net basis per month. These positive indicators, combined with job creation, will continue to drive demand in the Inland Empire retail market.

FORECAST

- **Employment** - We anticipate job growth of around 2.4%, or 30,200 jobs, in the Inland Empire area over the year. Look for leisure, hospitality, transportation, logistics, distribution and construction to lead the way for employment gains in the coming years.
- **Lease Rates** - Expect average asking lease rates to increase by 1% to 3% over the next four quarters.
- **Vacancy** - With upward pressure on vacancy rates stemming from new deliveries, we anticipate vacancy rates to inch downwards in coming quarters, to around 7.4%, by the end of the fourth quarter of 2016.

OVERVIEW

	1Q16	4Q15	1Q15	% of Change vs. 1Q15
Total Vacancy Rate	7.68%	7.67%	7.71%	(0.39%)
Availability Rate	10.39%	9.98%	10.27%	1.17%
Average Asking Lease Rate	\$1.37	\$1.38	\$1.36	0.74%
Sale & Lease Transactions	1,998,779	2,923,048	3,883,531	(48.53%)
Gross Absorption	1,105,566	877,082	889,673	24.27%
Net Absorption	83,140	58,495	32,659	N/A

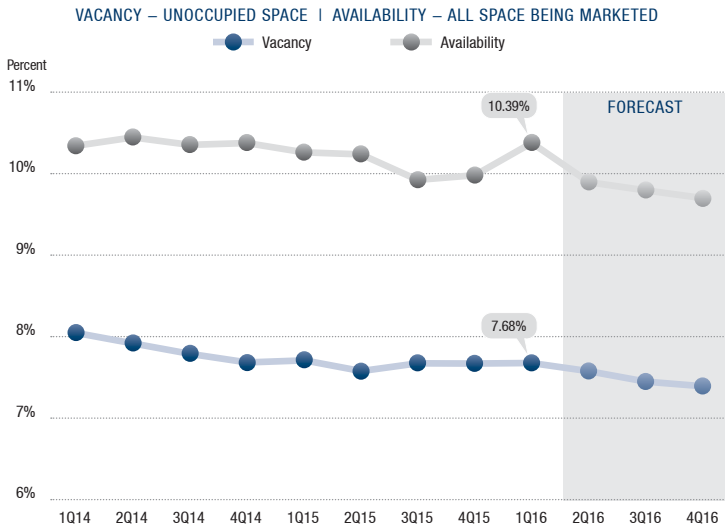
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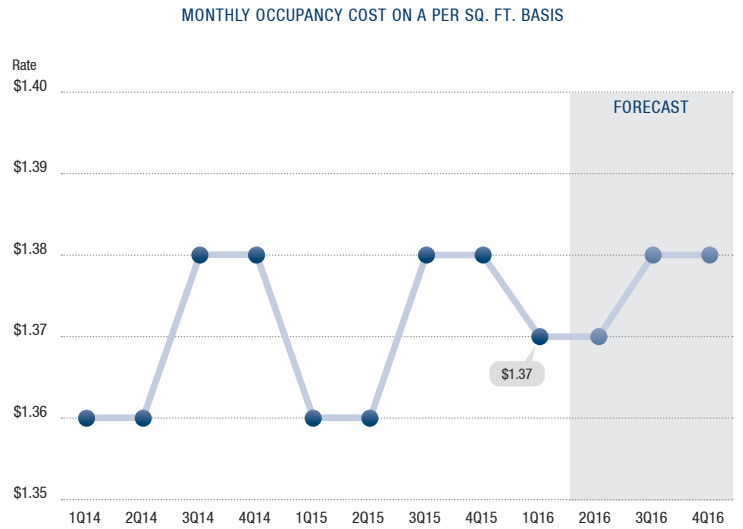
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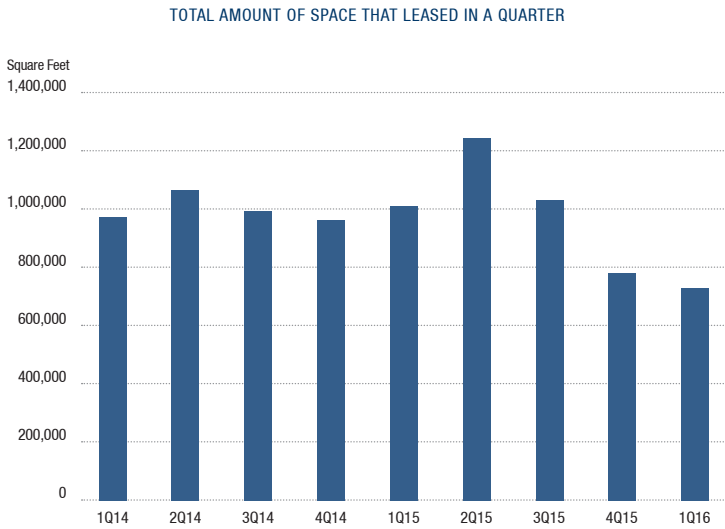
VACANCY & AVAILABILITY RATE



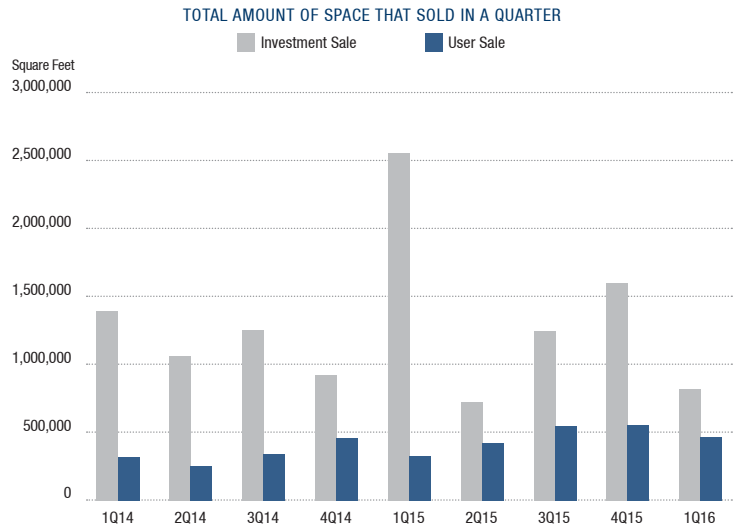
AVERAGE ASKING TRIPLE-NET LEASE RATE



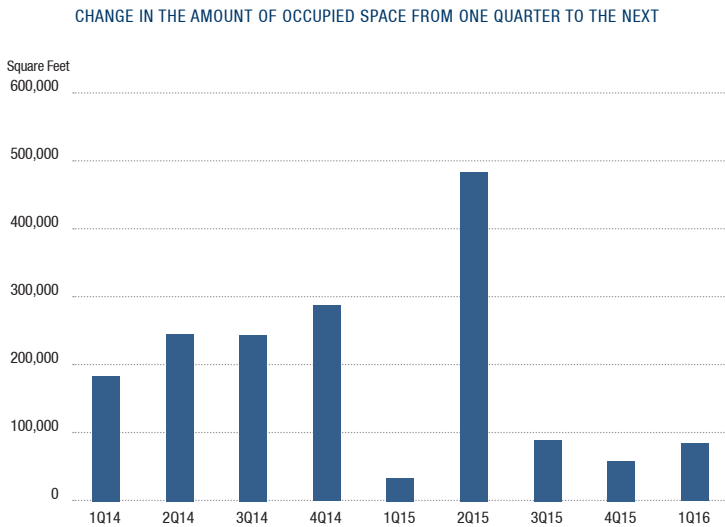
LEASE TRANSACTIONS



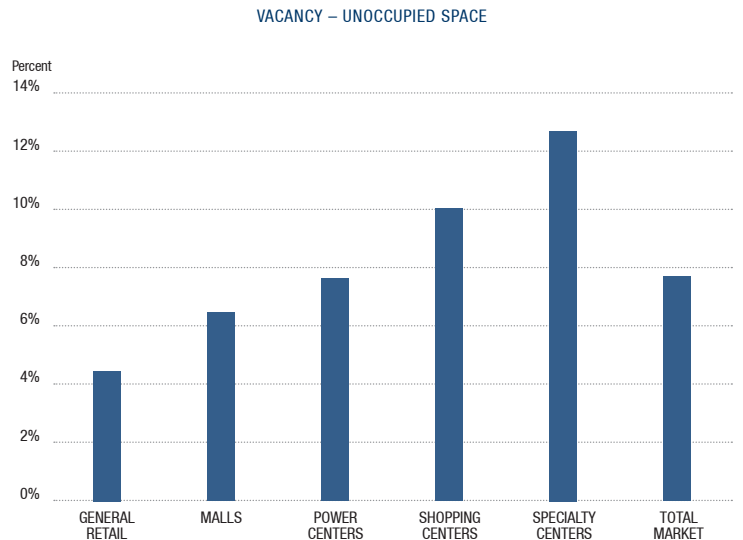
SALES TRANSACTIONS



NET ABSORPTION

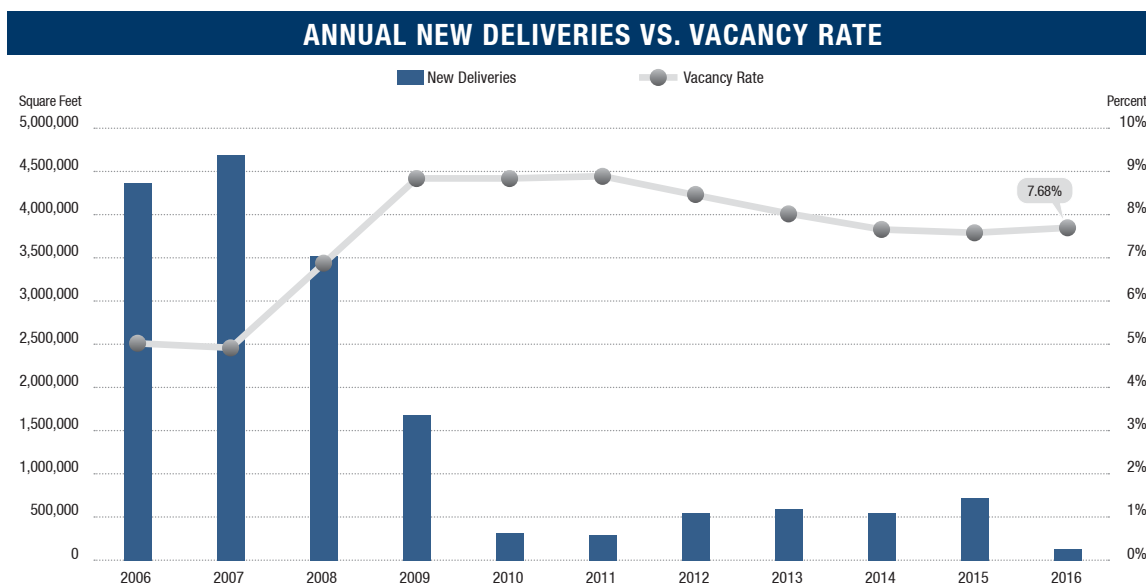


VACANCY RATE BY PRODUCT TYPE



	INVENTORY				VACANCY & LEASE RATES					ABSORPTION			
	Number of Bldgs.	Net Rentable Square Feet	Square Feet U / C	Square Feet Planned	Square Feet Vacant	Vacancy Rate 1Q2016	Square Feet Available	Availability Rate 1Q2016	Average Asking Lease Rate	Net Absorption 1Q2016	Net Absorption 2015	Gross Absorption 1Q2016	Gross Absorption 2015
East													
General Retail	5,239	32,211,960	119,075	4,150,083	1,545,321	4.80%	2,367,415	7.35%	\$1.21	23,912	55,274	194,581	685,698
Malls	147	9,060,147	0	1,123,990	785,319	8.67%	929,956	10.26%	\$1.61	8,702	22,994	13,213	109,036
Power Centers	138	5,011,167	0	762,717	355,428	7.09%	424,576	8.47%	\$1.46	43,752	326,900	89,750	446,614
Shopping Centers	2,853	47,675,598	18,185	3,475,218	4,953,284	10.39%	6,383,539	13.39%	\$1.32	(50,667)	367,859	380,545	1,915,598
Specialty Centers	19	618,355	0	75,700	114,367	18.50%	226,056	36.56%	\$1.00	(5,400)	49,293	0	53,399
East Total	8,396	94,577,227	137,260	9,587,708	7,753,719	8.20%	10,331,542	10.92%	\$1.31	20,299	822,320	678,089	3,210,345
West													
General Retail	1,596	10,713,893	11,700	559,830	369,194	3.45%	490,547	4.58%	\$1.25	60,316	1,372	117,949	212,900
Malls	41	5,404,876	0	0	150,407	2.78%	212,951	3.94%	\$1.69	11,760	(24,892)	69,608	27,322
Power Centers	185	6,759,832	0	12,940	538,903	7.97%	737,625	10.91%	\$1.52	(23,939)	(98,117)	48,480	173,679
Shopping Centers	1,118	18,036,259	103,255	1,004,475	1,617,172	8.97%	2,336,255	12.95%	\$1.53	14,704	48,573	189,289	791,818
Specialty Centers	21	370,480	0	13,268	10,968	2.96%	10,968	2.96%	\$1.91	0	6,125	2,151	6,125
West Total	2,961	41,285,340	114,955	1,590,513	2,686,644	6.51%	3,788,346	9.18%	\$1.51	62,841	(66,939)	427,477	1,211,844
Inland Empire Total	11,357	135,862,567	252,215	11,178,221	10,440,363	7.68%	14,119,888	10.39%	\$1.37	83,140	755,381	1,105,566	4,422,189
General Retail	6,835	42,925,853	130,775	4,709,913	1,914,515	4.46%	2,857,962	6.66%	\$1.22	84,228	56,646	312,530	898,598
Malls	188	14,465,023	0	1,123,990	935,726	6.47%	1,142,907	7.90%	\$1.64	20,462	(1,898)	82,821	136,358
Power Centers	323	11,770,999	0	775,657	894,331	7.60%	1,162,201	9.87%	\$1.50	19,813	228,783	138,230	620,293
Shopping Centers	3,971	65,711,857	121,440	4,479,693	6,570,456	10.00%	8,719,794	13.27%	\$1.37	(35,963)	416,432	569,834	2,707,416
Specialty Centers	40	988,835	0	88,968	125,335	12.68%	237,024	23.97%	\$1.17	(5,400)	55,418	2,151	59,524
Inland Empire Total	11,357	135,862,567	252,215	11,178,221	10,440,363	7.68%	14,119,888	10.39%	\$1.37	83,140	755,381	1,105,566	4,422,189

Lease rates are on a triple-net basis.



MAJOR TRANSACTIONS

Sales Transactions

Property Address	Submarket	Square Feet	Sale Price Per SF	Buyer	Seller
4020 University Pkwy.	East	1,912	\$1,346.76	Junghwan & Elaine D. Choi	Orben Pratt Jr.
1425 E. 4th St.	West	1,160	\$1,271.55	Mario Girges	David Farshid Sinai
14088 Euclid Ave.	West	3,113	\$1,220.69	Maher Sedrak	Naser Abdallat
7247 Archibald Ave.	West	1,875	\$1,106.67	Alifuad Hussain	Joseph Sanz
12223 Highland Ave. (3 Properties)	West	25,002	\$631.95	PASSCO Companies, LLC	Webb Management & Investments

Lease Transactions

Property Address	Submarket	Square Feet	Transaction Date	Tenant	Owner
300 Inland Center Dr.	East	152,178	Feb-2016	JC Penney	Macys California Realty
217 E. Club Center Dr.	East	40,451	Mar-2016	Unknown	Shaco, Inc.
3808–3860 Grand Ave.	West	20,700	Mar-2016	ALDI	Sy Ventures VI, LLC
1139–1151 N. Mount Vernon Ave.	East	11,340	Jan-2016	Unknown	City of Colton
11925 Central Ave.	West	10,500	Jan-2016	America's Tire	PK I Country Fair Sc.
1550 E. Washington St.	East	9,000	Mar-2016	The Calvary Book Church	Colton Health & Fitness, LLC

General Retail: Typically single-tenant freestanding general purpose commercial buildings with parking. Many single retail buildings fall into this use code, especially when they don't meet any of the more detailed use code descriptions.

Mall: Retail centers which provide shopping goods, general merchandise, apparel, furniture, and home furnishings in full depth and variety. Malls are generally built around one or more full-line department stores as the major drawing powers. However, some malls, such as lifestyle centers, lack major anchors and instead rely on trendier, upscale retail to draw business from nearby affluent neighborhoods.

Power Center: The center typically consists of several freestanding anchors and only a minimum amount of small specialty tenants. 250,000–600,000 SF and is dominated by several large anchors, including discount department stores, off-price stores, and warehouse clubs.

Shopping Center: Combination of the following retail types:

Strip Center: An attached row of stores or service outlets managed as a coherent retail entity. May be configured in a straight line, L, or U shape. On-site parking usually in front of stores.

Neighborhood Center: Centers providing convenience goods (food, drugs, etc.) and personal services (laundry, dry cleaning, etc.) for day-to-day needs of surrounding neighborhood. Generally 30,000–100,000 square feet in size.

Community Center: Centers offering a wider range of apparel and goods than community centers. Often anchored by supermarkets, super drugstores, or discount department stores. Usually configured in a straight line or L or U shape. Generally 100,000–350,000 square feet in size.

Specialty Center: Centers focused on a particular specialty or theme. Examples include Airport Retail (a center using an airport as its main draw), Outlet Center (a center of bigger chain stores often found in malls selling their own merchandise at a discount), and Theme / Festival Center (centers built around a unifying theme, often appealing most to tourists).

SUBMARKETS

EAST

Banning, Beaumont,
Bloomington, Colton,
Corona, Grand Terrace,
Highland, Loma Linda,
Mira Loma, Moreno
Valley, Norco, Perris,
Redlands, Rialto,
Riverside,
San Bernardino

WEST

Chino Hills,
Chino, Fontana,
Montclair, Ontario,
Rancho Cucamonga,
Upland

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